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TAGS: [PGOV](#) [ECON](#) [EINV](#) [UP](#)
SUBJECT: UKRAINE: NSDC SECRETARY KINAKH: STABLE
PARLIAMENTARY COALITION KEY TO ECONOMIC GROWTH

Classified By: Ambassador for reasons 1.4 (b,d).

¶1. (C) Summary: In an April 11 meeting, National Security and Defense Council (NSDC) Secretary Anatoliy Kinakh told Ambassador that a stable majority coalition in Parliament (Rada) and the formation of a new government had to happen quickly in order to address critical economic issues. In order to avoid further aggravating divisions within Ukraine, Kinakh opined, neither Party of Regions leader Viktor Yanukovych nor Tymoshenko bloc leader Yuliya Tymoshenko should become prime minister. An important task in building a Rada majority coalition would be the establishment of an agreement that deputies would sign, in accordance with constitutional reforms. Such an agreement would set forth the ruling coalition's priorities and program of work; the coalition and its deputies would be required to implement the agreement. One of the new Rada's first tasks would be to adopt the outlines of the 2007 budget, which needs to be done by the end of June. End summary.

Coalition Tasks: Reunify Ukraine, Reinvigorate Economy

¶2. (C) NSDC Secretary Kinakh said negotiations on the formation of a ruling coalition in Parliament (Rada) continued, but were contentious. The timely formation of a coalition was an important task not just on political grounds but also due to the numerous socio-economic problems confronting the nation, Kinakh declared. The electoral campaign had artificially aggravated divisions in the country, especially the east-west divide, a situation that had been evident during the 2004 presidential election. By bringing in the right partners, a Rada coalition and a new government could work to heal this rift. In addition, a coalition needed to address Ukraine's serious economic stagnation. In Kinakh's view, in order to avoid further aggravating divisions within Ukraine, a new government with Party of Regions should not have party leader Viktor Yanukovych as prime minister, and one with the Yuliya Tymoshenko Bloc (BYuT) should not have Tymoshenko as prime minister.

¶3. (C) Kinakh said a coalition had to be formed on the basis of principles that would address fundamental issues such as Ukraine's official language and whether Ukraine should have a federal structure. Kinakh noted that the constitutional amendments that took effect January 1, and which enhanced the Rada's power, required deputies in a majority coalition to sign a coalition agreement. The agreement would detail the coalition's "parameters, principles, and priorities" and set forth its program of work. Kinakh's Party of Industrialists and Entrepreneurs (a member of the Our Ukraine electoral bloc) wanted the coalition agreement to declare a halt to reprivatizations and include goals such as entry into WTO and movement toward NATO membership. Once the agreement were signed, the coalition would be required to implement its terms. A Rada coalition should also stay in place at least

until the next presidential election (2009) and not just survive for 5-6 months, if it was to be successful in moving Ukraine out its economic doldrums.

¶4. (C) Kinakh said President Yushchenko had not yet considered the possibility of using his power to dissolve Rada if a majority coalition were not established within 30 days of the convening of the first session of the newly-elected Rada. Such a step would heighten economic uncertainty and aggravate the already poor economy. The government needed to deal with pressing economic policy issues, such as establishment of an energy security policy that would incorporate structural reforms and market-based energy prices. Political parties involved in negotiations on formation of a coalition needed to avoid taking extreme positions. In particular, Party of Regions, which included numerous businessmen in its ranks, had to agree to regulation of business practices and movement toward a European-style market economy. In response to Ambassador's question, Kinakh said Regions financier Rinat Akhmetov and parliamentarian Andriy Klyuyev were closer to this view than to the official position of the party.

Passing the Budget

¶5. (C) As another reason speedy action on a coalition was necessary, Kinakh noted that the Cabinet had to submit its draft 2007 budget policy to the Rada by May 15, and Rada had until the end of June to approve it. If a coalition were not formed until the (potential and soft -- see septel) deadline of June 15, the Rada would have very little time to take the necessary action, although it could be done. Kinakh was vague on what exactly would happen if the budget were not

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passed. (Comment: The consequences of tardiness are not likely to be dire, as this is only the first step in the budget process, in which the government sets out broad parameters such as projected total spending and revenues as well as economic assumptions about growth and inflation. The deadline for submitting the actual draft budget with detailed expenditures and receipts is September 15. Typically, the final budget is not passed until December. Though Kinakh did not mention it, of far more consequence is whether the Rada will be able to pass revisions to the 2006 budget to prevent a fiscal crisis this year. End Comment.) He again stressed the important economic tasks that a new government needed to address, including implementation of a 25-percent increase in electricity and natural gas prices for domestic consumers. He noted that the economy would suffer greatly if inaction on a Rada coalition meant that 2006 was a lost year.

¶6. (U) Visit Embassy Kiev's classified website:
www.state.sgov.gov/p/eur/kiev.
Herbst